

Message Text

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ACTION SCI-06

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 2202

AEC GERMANTOWN

INFO AMEMBASSY TOKYO

C O N F I D E N T I A L OTTAWA 2850

E.O. 11652: GDS

TAGS: ENRG, TECH, CA, JA

SUBJECT: RECENTLY ANNOUNCED DENNISON URANIUM SALE TO JAPAN

REF: TOKYO 15444

1. THE SALIENT FEATURES OF DENNISON RECENT URANIUM SALE TO JAPAN AS REPORTED IN THE PRESS APPEAR TO BE GENERALLY CORRECT, I.E., 40 MILLION POUNDS OF CONTAINED U308 TO BE DELIVERED DURING THE PERIOD FROM 1984 TO 1993.

2. THE SALE IS REPORTED TO BE VALUED AT C\$800 MILLION OR AN AVERAGE OF C\$20 PER POUND, ALTHOUGH IT IS BELIEVED THAT PRICES WILL BE UP-GRADED DURING THE LIFE OF THE CONTRACT ACCORDING TO AN AGREED COST INDEX. THE CONTRACT IS EXPECTED TO BE SIGNED IN DECEMBER. DENNISON ALREADY REPORTEDLY HAS CONTRACTS WITH JAPANESE UTILITIES, INCLUDING TOKYO ELECTRIC, TO SUPPLY UP TO 45 MILLION POUNDS OF URANIUM OXIDE (VALUED AT ABOUT C\$330 MILLION) THROUGH 1983.

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3. AS WITH EVERYTHING INVOLVING ROMAN, PRESIDENT OF DENNISON, THERE ARE SEVERAL COMPLEXITIES AND VAGARIES ASSOCIATED WITH THIS AS WELL AS PAST DENNISON SALES.

4. ROMAN HAS SAID PUBLICLY THAT THE ELLIOTT LAKE ORE RESERVES INSURE PRODUCTION TO THE YEAR 2025 AND THAT THE COMPANY IS NEGOTIATING OTHER OFF-SHORE URANIUM SALES. DENNISON OFFICIALS, FOR EXAMPLE, MET WITH A DELEGATION OF SPANISH MINISTRY OF INDUSTRY OFFICIALS WHO VISITED CANADA NOVEMBER 11-17.

5. THE DENNISON PICTURE OF RESERVES IS HOWEVER QUESTIONABLE. PROVEN RESERVES IN THE LEGAL SENSE (THE PRESUMED BASIS FOR GOC DECISIONS) ARE HIGHLY DEPENDENT, AMONG OTHER THINGS, ON THE VALUE OF URANIUM. SHOULD THIS VALUE BE TAKEN AT STOCKPILE PRICE, AT APPARENT CURRENT PRICE (\$20/LB.), AT DELIVERY DATE PRICE OR AT THE PRICE ANTICIPATED FOR URANIUM WHEN DEMAND PEAKS IN CANADA. ALL THESE PRICES COULD BE DEFENDED. ACCORDING TO RELIABLE INDEPENDENT SOURCES IN ELLIOTT LAKE AND OTTAWA, IF EXISTING DENNISON COMMITMENTS TO STOCKPILE DELIVERIES, TO OTHER BUYERS AND NOW JAPAN ARE TAKEN CUMULATIVELY AND BALANCED AGAINST A STOCKPILE OR CURRENT PRICE, AN ARGUMENT COULD BE MADE THAT AT LEAST NO FURTHER SALES WOULD BE JUSTIFIED. THIS IS CONSIDERED PARTICULARLY TRUE IN VIEW OF THE NATURE OF SOME OF THE ORE BODIES DENNISON HAS BEEN CARRYING AS "PROVEN RESERVES" AS WELL AS WIDESPREAD SUSPICION THAT THEY HAVE BEEN "HI-GRADING" IN OPERATING MINES. IF THIS LATTER IS TRUE, OPERATING COSTS CAN BE EXPECTED TO SOAR IN THE PERHAPS NEAR FUTURE. IF DELIVERY DATE OR PROBABLE FUTURE VALUE IS THE BASIS FOR ESTIMATES, THEN THERE ARE CERTAINLY AMPLE RESERVES PROVEN; AND EVEN QUITE LEAN ORES IN SOME OF DENNISON'S CLOSED MINES WOULD BE CONSIDERED PROVEN RESERVES.

6. ADDITIONAL PROBLEMS COULD BE RAISED BY NEW DEMOCRATIC PARTY (NDP) CRITICISM OF THE SALE WHICH HAS PARALLELED ITS STAND ON OTHER ENERGY ISSUES, I.E. CANADIAN RESOURCES SHOULD BE CONSERVED FOR CANADIAN USE.
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FURTHER THE NDP HAS CALLED FOR THE NATIONALIZATION OF ALL URANIUM RESERVES.

7. IN REACHING A DECISION ON THIS AND FUTURE SALES THERE WILL BE CERTAIN PROBLEMS FOR GOC AND DENNISON AS FOLLOWS: (A) DENNISON'S PRESIDENT ROMAN HAS CONSISTENTLY BEEN VAGUE AT BEST AND OFTEN OUTRIGHT SECRETIVE CONCERNING TOTAL RESERVES WHICH DENNISON HAS. (B) ATOMIC ENERGY CONTROL BOARD (AECB) AND INDUSTRY, TRADE AND COMMERCE (ITC) ARE BY LAW AND REGULATION THE TWO GOC ORGANIZATIONS RESPONSIBLE FOR DETERMINING WHETHER OR NOT PROPOSED SALE WOULD CUT INTO RESERVES DEEPLY ENOUGH TO JEOPARDIZE MEETING

CANADIAN DOMESTIC NEEDS. ONLY REAL EXPERTISE WITHIN
GOC HOWEVER WHICH MIGHT BE ABLE TO REVEAL DENNISON'S
TRUE RESERVE PICTURE IS LOCATED IN ENERGY, MINES AND
RESOURCES AND EL DORADO WHICH WILL GIVE RISE TO NORMAL
BUREAUCRATIC AND MOTIVATIONAL PROBLEMS. THIS
WILL REPRESENT FIRST CASE BEFORE AECB/ITC OF SUFFICIENT
MAGNITUDE TO POSE PROBLEM. THERE ARE NO PRECEDENTS
AND FEW OBJECTIVE GUIDELINES.
SCHMIDT

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